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Teachers' Pension Plan

2011 REPORT TO MEMBERS

Trustees talk about eight ways to make the most of your pension

LOOK INSIDE

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Disclaimer

The information in this report is based on the legislation and Teachers' Pension Plan rules except where otherwise noted.

In the event of any variation between the information in this report and the provisions of the statutes, regulations and plan rules which govern any benefits available under the Teachers' Pension Plan, the latter will prevail.

Reporting to you

Your future pension from the Teachers' Pension Plan may be one of the most important and valuable assets you'll ever have. It's important to stay informed about how the plan works and how you can make it work for you. This *2011 Report to Members* gives you a quick, easy-to-read update on finances, policy changes and other matters that affected the plan in 2011. There is also a message from the Teachers' Pension Board of Trustees about the work they're doing to keep your pension plan financially healthy and sustainable for the future. For more information any time, visit the plan's website at **tpp.pensionsbc.ca**.

How the Teachers' Pension Plan is governed

The Teachers' Pension Plan is jointly trusteed and is governed by a joint trust agreement, which is available under Board Publications on the plan's website, **tpp.pensionsbc.ca**.

Joint trusteeship is the shared management of the pension plan by appointees of the plan partners. The plan partners are the BC Teachers' Federation and the provincial government. The partners are responsible for appointing the board of trustees.

The Teachers' Pension Board of Trustees is responsible for managing the pension plan. The board may change the plan rules if they are directed to do so by the plan partners and certain conditions are met. The board can also amend the pension plan rules as long as the changes can be funded by pension fund surpluses or are cost-neutral to the plan. The joint trust agreement sets out conditions for the board to follow in implementing certain changes.

Trustees talk about eight ways to make the most of your pension

1 Purchase service if you're eligible

Gerry Tiede, Chair

You might be able to increase your future pension by making what's called a purchase of service. If you took a leave from work, were laid off and placed on a recall list, or worked for a period at less than your full assignment, you might be eligible to purchase service. This is when you (and your employer, in some cases) make contributions to the pension plan to cover the period of service in question. These purchases increase the amount of service the plan will use when it calculates your future pension, and more service typically results in a bigger pension. Check out the PensionFacts *Purchasing leaves of absence* and *Purchase of service and arrears for part-time members* on the plan website for more information.

2 Stay in the plan

Joann Cain, Vice Chair

The Teachers' Pension Plan is a defined benefit pension plan, meaning your salary and service determine the basic pension benefit you will receive in retirement. Your basic pension benefit is secure and dependable for your lifetime after you retire.

3 Look at transferring service from other pension plans

Joan Axford

If you've contributed to another pension plan in the past, you may be eligible to transfer your service to the Teachers' Pension Plan. Check out the fact sheet *Transferring Service* on our website at **tpp.pensionsbc.ca**.

4 Read your *Member's Benefit Statement*

Chung Yan Ip

Your *Member's Benefit Statement* is enclosed with this report. See your annual account activity and what pension options are available to you, and identify potential opportunities to maximize your pension through transfer agreements and purchases of service.

5 Attend a pension seminar

Reg Bawa

Wayne Jefferson

Learn more—whether you're brand new to the plan, in the middle of your career or nearing retirement—by attending a pension information seminar. You'll find out what tools and resources are available on the Teachers' Pension Plan website, how to better understand your *Member's Benefit Statement* and what pension options are available. Visit the plan website at **tpp.pensionsbc.ca** and click on Pension Information Seminars in the Resources section to register.

6 Check out our online service, *My Account*

Dale Lauber

My Account services let you access your personal information securely and use online tools when it's convenient for you. The personalized pension estimator is a great tool to help you plan for the future. Did you know you can research various pension scenarios in minutes by adjusting some of the estimator's information fields and running new estimates? If you've never used *My Account* before, you'll find your username and your initial password on your *Member's Benefit Statement*.

7 Understand the value of your pension

Ken Tannar

Brad Underwood

Along with your contributions, employer contributions and investment earnings, your pension plan is healthy and sustainable. You're building an incredibly valuable asset, a secure basic pension you'll be able to count on for the rest of your life once you retire. The sound structure of the Teachers' Pension Plan contributes to a vibrant economy by allowing retired teachers and administrators to live in dignity and continue contributing to society, and by ensuring the sustainability of these arrangements will not be a burden on future generations. Please read the Trustees' message found later in this report.

8 Know we're committed to responsible investing

Linda Watson

Our board believes social and environmental responsibility and good governance practices can have an important and beneficial effect on investment returns. The British Columbia Investment Management Corporation, our investment agent, is a leader in socially responsible investing, and you can read about the results of our responsible investing initiatives on the Teachers' Pension Plan website at **tpp.pensionsbc.ca** and the bcIMC website at **bcimc.com**.

The financial health of your Teachers' Pension Plan

The Teachers' Pension Plan holds a diversified portfolio of investments that permits prudent management of risk and good long-term investment returns.

Every three years, an independent actuary assesses the financial health of the plan's basic account and determines whether contribution rates are adequate to fund the plan. The 2008 actuarial report for the Teachers' Pension Plan showed that, as at December 31, 2008, the plan had an unfunded liability for basic pension benefits of $291 million. As a result, plan member and employer contribution rates increased by 1.04 per cent of salaries each on July 1, 2010, to pay down this unfunded liability.

Results of the next valuation, conducted as at December 31, 2011, will be available for the *2012 Report to Members*.

The following tables and charts summarize the plan's investments, investment performance and financial statement highlights.

Investment asset mix and performance

year ended December 31, 2011

	Approved range (%)	Target asset mix market value (%)	Actual asset mix market value (%)	Rate of return (%)	Performance benchmark* (%)
Short–term	0–10	2	1.7	4.1	1.0
Mortgages	0–11	6	4.6	6.2	5.2
Nominal bonds	10–25	17	15.0	9.8	9.7
Real return bonds	0–10	5	6.5	17.9	18.3
Fixed income subtotal	**20–40**	**30**	**27.8**	**10.6**	**9.6**
Canadian equities	7–22	15	15.1	(9.0)	(9.6)
Global equities	12–32	23	25.9	(2.9)	(2.9)
Emerging markets equities	0–10	5	4.2	(15.6)	(16.4)
Public equity subtotal	**30–55**	**43**	**45.2**	**(6.5)**	**(6.6)**
Real estate	10–20	15	15.2	14.9	6.3
Real estate subtotal	**10–20**	**15**	**15.2**	**14.9**	**6.3**
Private placements	0–12	6	5.4	**	**
Strategic investments and infrastructure (SIIF)	0–12	6	6.4	**	**
Private placements and SIFF subtotal	**5–24**	**12**	**11.8**	**	**
Total asset mix			**100.0**	**3.1**	**1.4**

* Benchmarks are standards to compare against investment returns

** Annual rate of return not applicable

Why it matters: This table shows which asset categories the plan invests in and how well the investment categories performed during the year compared with benchmark returns. The trustees use this information to assess if the pension fund is meeting its investment objectives and to evaluate the performance of our fund manager, bcIMC.

Financial statement highlights

year ended December 31

	2011	2010
	$ Millions	
	(unaudited)	
Net assets—beginning of year*	**$16,649**	$15,458
Investment income	**532**	1,465
Contributions	**687**	635
Benefit payments	**(934)**	(881)
Investment and administration costs**	**(35)**	(28)
Net assets—end of year*	**$16,899**	$16,649

* The net assets available for benefits reflect the market value of investments net of accounts receivable, accounts payable and prepaid expenses. For more details, please see the Statement of Financial Position in the financial statements of the *2011 Annual Report*, to be published fall 2012.

** External investment management costs of $8.6 million incurred in the investment pooled funds by wholly owned corporations reduce investment income and are not included in investment and administration costs. They are included in investment management costs as a percentage of net assets. (Prior years' costs: 2010—$7.5 million ; 2009—$6.6 million; 2008—$9.1 million; 2007—$16.0 million)

Why it matters: This table shows how much money the plan has available for providing pension benefits and compares that number to the previous year's figure. Year-to-year summaries only provide a snapshot in time; our goal is to grow the plan assets over the long term and achieve consistent, reliable performance by following sound investment principles.

Investment performance

	Performance benchmarks* 2011	Actual December 31	
		2011	2010
		(Unaudited)	
Market value ($ billions)		$16.9	$16.8
Market value rates of return			
Total portfolio			
Annual	1.4%	3.1%	9.6%
Five–year annualized	2.8%	2.6%	5.1%

* Benchmarks are standards to compare against investment returns

Why it matters: This table presents the investment returns the plan achieved in 2011 with the average over the previous five years. These are compared with benchmarks and prior year returns. Benchmarks are set by the board and are used as a measure of performance.

Investment and administration costs*

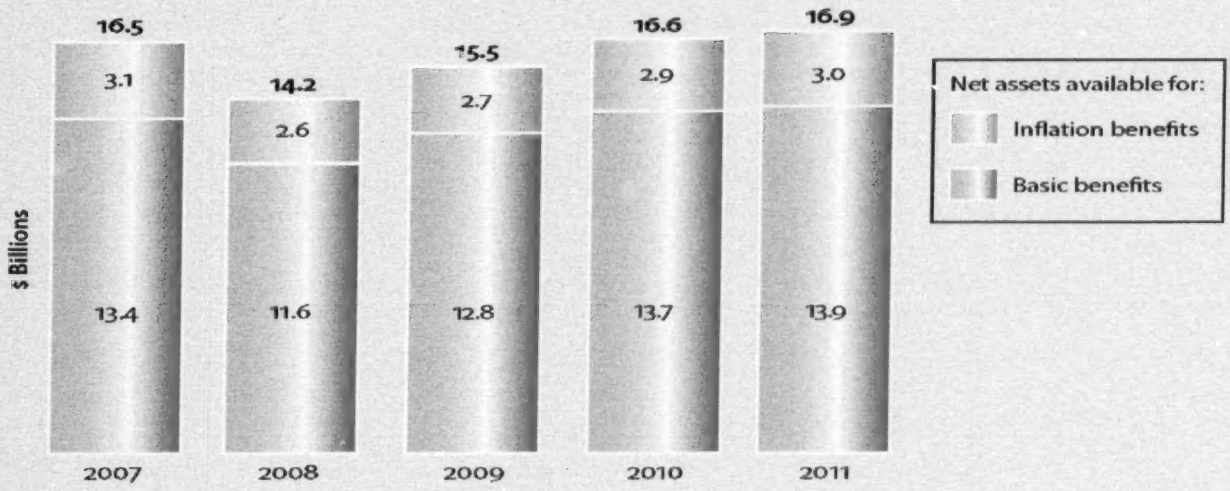
	2011	2010	2009	2008	2007
Investment management*	0.21%	0.16%	0.15%	0.20%	0.26%
Benefits administration	0.05%	0.06%	0.06%	0.06%	0.05%

* External investment management costs of $8.6 million incurred in the investment pooled funds by wholly owned corporations reduce investment income and are not included in investment and administration costs. They are included in investment management costs as a percentage of net assets. (Prior years' costs: 2010—$7.5 million ; 2009—$6.6 million; 2008—$9.1 million; 2007—$16.0 million)

Why it matters: This shows the cost of administering the plan and managing the plan's assets as a percentage of net assets for each of the last five years. The Teachers' Pension Plan compares very favourably to other large public sector pension plans.

Net assets available for benefits*

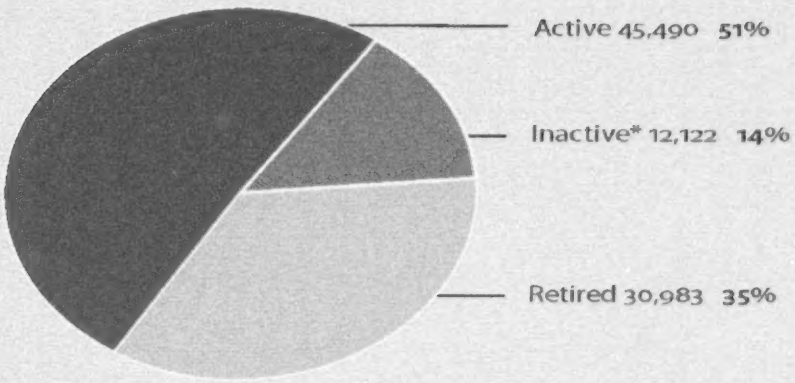
as at December 31



* The net assets available for benefits reflect the market value of investments net of accounts receivable, accounts payable and prepaid expenses. For more details, please see the Statement of Financial Position in the financial statements of the *2011 Annual Report*, to be published fall 2012.

Why it matters: This shows the total amount of funds available for basic pension benefits and inflation adjustments. As more members retire and begin receiving their pensions, the cost of providing cost-of-living adjustments increases. Over the past two years, the plan has taken steps to ensure funding for cost-of-living adjustments will remain sustainable for those already retired and those who will retire in the future.

Membership Profile
as at December 31, 2011



* Members no longer employed, but with money in the plan.

Why it matters: This shows how many members are in the plan and each group's percentage of the plan as a whole. The percentage of retirees is growing faster than the number of active members contributing to the plan. The plan actuary takes this growing number of retirees into account when determining the plan's ability to pay future pension benefits.

Plan updates

Application of the early reduction factor and pensionable salary policy

Amendment 18 – Effective March 4, 2011

Two separate changes were made with this amendment to the Teachers' Pension Plan Rules.

First, the rules were changed to ensure the monthly pension of a member will not decrease as a result of a retired or deferred member returning to work, re-enrolling in the plan, and retiring or terminating again.

Secondly, the definition of salary was amended to remove references to salary types where their inclusion would be more appropriate in the board's salary policy. This amendment was made in conjunction with changes the board made to its pensionable salary policy.

What do these changes mean to you?

The first change means that if you are a retired or deferred member returning to work, your pension will not be lower when you retire or terminate employment again. Previously, the manner in which the rules were drafted could have resulted in members' pensions being reduced if they retired or terminated employment, became re-employed, then retired or terminated employment again. For more information about early retirement reduction factors and how they're calculated, see the PensionFacts *Your pension payment* under Publications on the plan website, **tpp.pensionsbc.ca**.

The second part of Amendment 18 is an administrative change that is part of the streamlining of the board's pensionable salary policy. The pensionable salary policy sets out the types of earnings that are included and excluded in determining the contributions paid by members and employers and the pension benefit payable from the plan.

Trustees' message

People are talking about pensions a lot these days. Across Canada and around the world, pension plans are facing scrutiny like never before. As the board of trustees for *your* pension plan, we want you to know that the governance practices to which we and other British Columbia public sector pension plans adhere have positioned us to withstand challenges.

Continued volatility in the European and American markets, changing demographics and the affordability of pensions are all valid issues for people to raise and discuss. Yet financial pages and media stories tend to focus on daily or quarterly results and short-term challenges, so it's easy for misconceptions and concerns to arise that simply aren't justified when it comes to the Teachers' Pension Plan.

As a member contributing to the plan, you should know your contributions and those of your employer are safe in the plan and are being managed prudently for your long-term benefit. You're building an incredibly valuable asset, a secure basic pension you'll be able to count on for the rest of your life once you retire.

Teachers' Pension Board of Trustees as of December 31, 2011

Gerry Tiede, Chair
Joann Cain, Vice Chair
Joan Axford
Reg Bawa
Chung Yan Ip
Wayne Jefferson
Dale Lauber
Ken Tannar
Brad Underwood
Linda Watson

We can make this promise to you because we assess the plan's financial health regularly and make adjustments along the way to pay for current and future pensions. Two such adjustments were moving as of January 1, 2012, to an unsubsidized, voluntary extended health care plan for retired members, and increasing active members' contributions rates by one per cent of salary, effective July 1, 2010, with that funding going directly to the plan's inflation adjustment account. These changes

are helping ensure the funding for cost-of-living adjustments on retiree pensions will remain sustainable into the future, both for today's retirees and for members like you who will retire in years to come.

The story of the Teachers' Pension Plan is one of good news. The plan is financially strong and is providing a more secure future for 89,000 members. That's why our board of trustees has been speaking up for the plan and supporting other BC public sector pension plans, too—promoting their value, efficiency and sustainability in response to media and political pressures.

The reality is the Teachers' Pension Plan has a long-term investment horizon stretching out for decades. We maintain a diversified portfolio and adjust our mix of assets with an eye to achieving consistent, reliable performance over the long term to support the plan's pensions. Through joint trusteeship, members and employers appropriately share the funding, risks and decision making responsibility for the plan.

This focus on long-term stewardship allows us to weather ups and downs in the economy, seize opportunities when they're available and spread risks out over time. In fact, through our investment manager, bcIMC, we are cautiously capitalizing on investment opportunities right now, opportunities that we can take advantage of in this period of economic uncertainty because of our longer-term perspective. In addition, we are leaders in responsible investing practices, incorporating environmental, social and governance factors, as appropriate, in our investment decisions and in our ongoing corporate engagement efforts.

Our board is proud to serve the membership of the Teachers' Pension Plan—*your* pension plan. We encourage you to learn more about how it works and the value it holds for you. Then help us get the word out. Let others know that BC's public sector defined benefit pension plans are fair and affordable, and that they contribute to a healthy economy now and into the future.

Visit the plan website today: tpp.pensionsbc.ca

Teachers' Pension Plan

Teachers' Pension Board of Trustees

Our Mission Statement

"To fulfill the trust the Partners have placed on us by efficiently meeting or exceeding the pension promise made to plan members."

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